The Joint Audit Plan for Gloucestershire Police and Crime Commissioner and Chief Constable

Year ended 31 March 2015

June 2015

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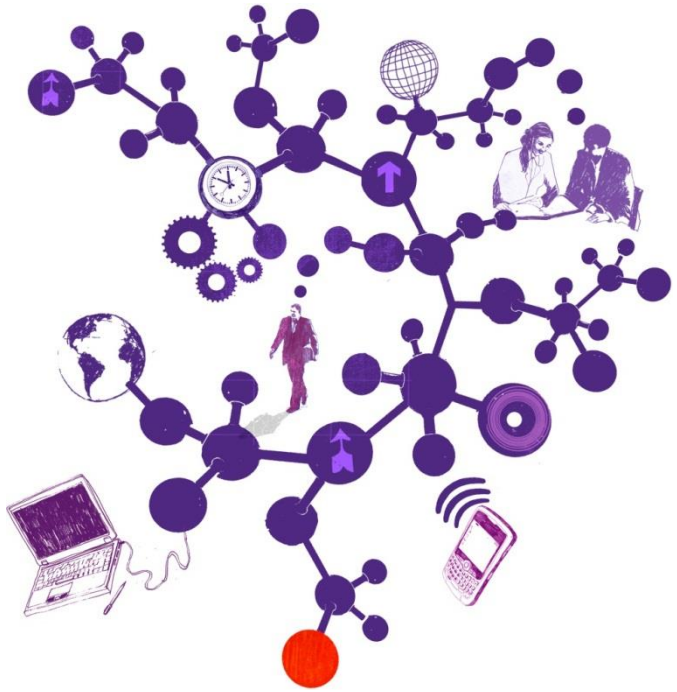

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Understanding your business

In planning our audit we need to understand the challenges and opportunities that the Police and Crime Commissioner and Chief Constable are facing. We set out a summary of our understanding below.

Challenges/opportunities

1. Developing a strategic vision

- The Chief Constable has redesigned the shape of services in light of the long term fiscal challenges faced by the public sector
- The resultant operating model will be key to setting the future direction of the constabulary and securing a sustainable future for policing in Gloucestershire

2. Identifying and delivering financial savings

- Preparing a medium term financial plan (MTFP) which balances income and expenditure over the medium term will involve further significant savings and income generation
- Delivery of current plans will require careful planning and monitoring

3. Commissioning of PCC responsibilities

- From October 2014 the PCC has been responsible for commissioning victim support services in the area. New arrangements have been put in place with effect from 1 April 2015.

4. Strategic Partnerships and Collaboration

- There is a continued expectation from government and HMIC that police bodies should work collaboratively to improve services and achieve efficiencies
- The constabulary is already involved in a number of collaborative arrangements.

Our response

- As part of our value for money conclusion we will review progress in implementing the operating model and consider whether the planned improvements, financial and other, have been derived.

- We will review the assumptions and content of your MTFP to support our VFM conclusion
- We will review the management and delivery of savings plans
- We will undertake a review of Financial Resilience as part of our Value for Money conclusion

- We will review the PCC's arrangements for victim services as part of our value for money conclusion work.

- We will consider your plans for further collaboration and partnership working as part of our value for money conclusion work.

Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and other relevant guidance.

Developments and other requirements

1. Financial reporting

- The audit deadline for local authority accounts (including police accounts) is to be brought forward to 31 July for the 2017/18 accounts. The Authority deadline is to be brought forward to 31 May.
- Changes to the CIPFA Code of Practice for 2014/15

2. Reducing the overall cost of policing

- The Home Office released details of the 2015/16 police funding formula in December 2014
- Fiscal austerity is expected to continue until at least 2019, regardless of the outcome of the next general election
- The Home Office budget has already been cut by almost 25% over the five years to 2015/16 (*Institute for Fiscal Studies*)

3. Corporate governance

- The PCC and Chief Constable are required to produce an annual governance statement (AGS) which meets CIPFA's requirements and fairly reflects the PCC's and Chief Constable's arrangements.
- The PCC's and Chief Constable's accounts are required to include an explanatory foreword, which summarises financial performance and helps readers to understand the accounts.

4. Other requirements

- The PCC is required to submit a Whole of Government Accounts (WGA) consolidation pack which summarises the group accounts

Our response

- We will continue to work with you towards the shared goal of earlier accounts and audit sign off.
- We will work with you to determine the impact of any changes to the Code on your financial statements
- Our audit opinion will provide assurance that the financial statements have been prepared in accordance with the applicable financial reporting framework

- We will discuss the impact of the settlement on the medium term financial strategy and police and crime plan through our regular meetings with you
- We will review your performance against the 2014/15 budget, including consideration of performance against savings targets included in the MTFS and police and crime plan
- We will undertake a review of financial resilience as part of our value for money conclusion

- We will review your arrangements for the compilation and publication of Annual Governance Statements for the PCC and Chief Constable
- We will review both AGSs and the explanatory forewords to consider whether or not they are consistent with our knowledge of the organisations and with your accounts.

- We will carry out specified audit procedures on the PCCs WGA consolidation pack on behalf of the National Audit Office
- We are required to consider any significant subsequent events that would impact on our financial statements opinion or value for money conclusion at the point we complete work on the WGA and issue our certificate of closure

Our audit approach

Global audit technology

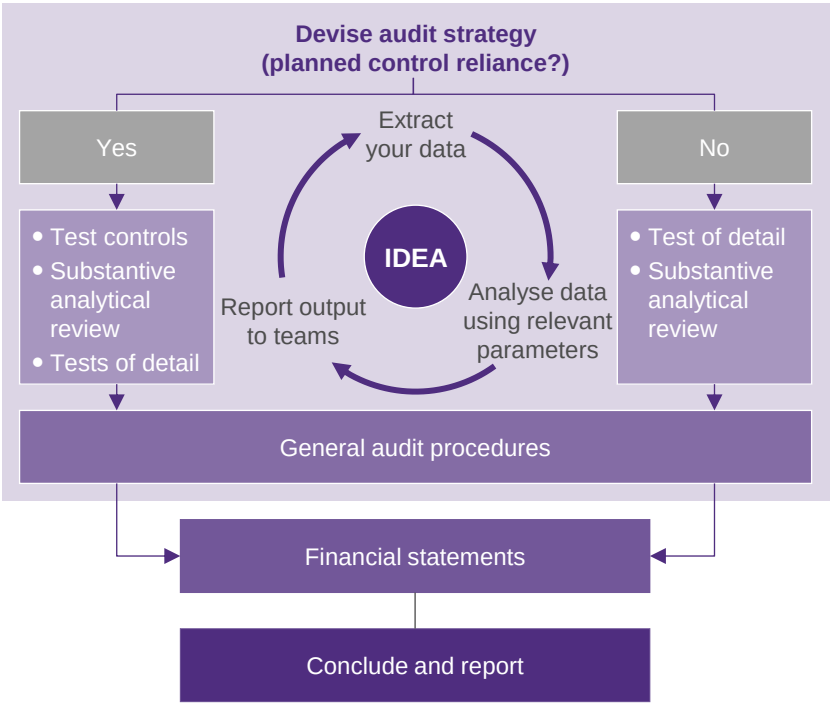
Ensures compliance with International Standards on Auditing (ISAs)

- Understanding the environment and the entity
- Understanding the business
- Understanding management's focus
- Evaluating the year's results

→ Inherent risks, Significant risks, Other risks, Material balances →

Develop audit plan to obtain reasonable assurance that the Financial Statements as a whole are free from material misstatement and prepared in all material[a] respects with the CIPFA Code of Practice framework using our global methodology and audit software

Note:
a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.



Creates and tailors audit programs

Stores audit evidence

Documents processes and controls

Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Relevant to PCC/ Chief Constable/ both?	Description of risk	Work planned to address the risk
The revenue cycle includes fraudulent transactions	Both	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	We have rebutted this presumed risk for the PCC as: • revenue is principally grant allocations from central government • there is little or no incentive to improperly recognise revenue. We have rebutted this presumed risk for the Chief Constable as : • revenue is an inter group transfer from the PCC • revenue does not involve cash transactions. We therefore do not consider this to be a significant risk for either the PCC or Chief Constable.
Management over-ride of controls	Both	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	**Work completed to date:** • Identification of significant accounting estimates, judgments and decisions made by management • Review of controls around journal entries • Identification of significant, unusual transactions **Further work planned:** • Review and challenge of significant accounting estimates, judgments and decisions made by management • Detailed testing of high risk journal entries • Review accounting treatment for significant, unusual transactions

Other risks identified

'The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures' (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Cycle	Relevant to PCC/ Chief Constable/ both?	Description of risk	Work completed to date	Further work planned
Operating expenses	Both	Creditors related to core activities understated or not recorded in the correct period	• Identification of controls and walkthrough testing of the operating expenses transaction cycle	• Testing the reconciliation of operating expenditure recorded in the general ledger to the subsidiary systems and interfaces • Testing of payments made after the year-end to identify potential unrecorded liabilities and gain assurance over the completeness of the payables balance in the accounts
Employee remuneration	Both	Employee remuneration and benefit obligations and expenses understated	• Identification of controls and walkthrough testing of the employee remuneration transaction cycle	• Testing the reconciliation of payroll expenditure recorded in the general ledger to the subsidiary systems and interfaces • Analysis of trends and relationships to identify any anomalous areas for further investigation • Testing to confirm the completeness of payroll transactions and appropriate cut-off

Other risks identified (continued)

Cycle	Relevant to PCC/ Chief Constable/ both?	Description of risk	Work completed to date	Further work planned
Pensions Benefits Payable	Chief Constable	Benefits improperly computed	• Identification of controls and walkthrough testing of the pension benefit payments transaction cycle	• Testing the reconciliation of pension benefit payments recorded in the general ledger to the subsidiary systems and interfaces • Substantive testing of monthly pension benefit payments made in the year • Substantive testing of lump sum pension benefit payments made in the year

Group audit scope and risk assessment

ISA 600 requires that as group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

For accounting purposes, the Chief Constable is considered a subsidiary of the PCC and the Chief Constable's financial results are consolidated into the PCC group accounts. We will comply with the requirements of ISA 600 in carrying out our audit of the Chief Constable's financial statements.

Component	Significant?	Level of response required under ISA 600	Planned audit approach
PCC (parent)	Yes	Comprehensive	Full scope statutory audit performed by Grant Thornton UK LLP
Chief Constable (subsidiary)	Yes	Comprehensive	Full scope statutory audit performed by Grant Thornton UK LLP

Other risk assessment procedures

The findings from our other risk assessment procedures, and the impact on our approach to auditing the financial statements, are summarised in the table below:

	Relevant to PCC / Chief Constable / Both?	Work performed and findings to date	Conclusion
Internal audit	Both	We have completed a high level review of internal audit's overall arrangements. To date, our review of internal audit reports on key financial systems has not identified any weaknesses which impact on our audit approach. We will continue to review this work as it is finalised in the coming months. Our work has not identified any other issues which we wish to bring to your attention.	Overall, we have concluded that the internal audit service continues to provide a satisfactory independent assurance function to the PCC and the Chief Constable, and that internal audit work contributes to an effective internal control environment at both entities.
Walkthrough testing	Both	We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the your financial statements: • Payroll • Accounts Payable • Pensions Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.	Our work has not identified any weaknesses which impact on our audit approach.
Review of information technology controls	Both	Our information systems specialist performed a high level review of the general IT control environment. as part of the 2013/14 audit. There were no issues raised last year that required follow up.	We have concluded that satisfactory controls are in place.

Other risk assessment procedures (continued)

	Relevant to PCC / Chief Constable / Both?	Work performed and findings to date	Conclusion
Identification of significant accounting estimates and judgments	Both	We have identified the following areas where management will have to make significant accounting estimate and judgments in the 2014/15 financial statements: • valuation of property, plant and equipment • actuarial valuation of IAS 19 pension liability ▪ significant accruals of income and expenditure at the year-end. We have undertaken some early work in relation to the valuation of land and buildings. This included reviewing the valuer's latest report, specifically the movements in asset values, and comparing these to our expectations, based on our own valuer's report. Initial indications are that the figures to be included in the accounts are reasonably stated.	We will undertake testing in each of these areas, including completing our testing of the valuation of property, plant and equipment, as part of our final accounts visit. We will report any significant findings to you in our Audit Findings Report.

Value for money

Value for money

The Code requires us to issue conclusions on whether the PCC and the Chief Constable have each put in place proper arrangements for securing economy, efficiency and effectiveness in their use of resources. These are known as Value for Money (VfM) conclusions. We issue separate conclusions for the PCC and for the Chief Constable.

Our VfM conclusions for the PCC and the Chief Constable are based on the following criteria specified by the Audit Commission:

VfM criteria	Focus of the criteria
The organisation has proper arrangements in place for securing financial resilience	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity

We have undertaken a risk assessment to identify areas of risk to our VfM conclusions. We will undertake work in the following areas to address the risks identified which are relevant to the conclusions of both the PCC and the Chief Constable:

- strategic financial planning i.e. developing the medium term financial plan
- financial governance, which includes the adequacy of budget reporting for both revenue and capital budgets
- financial control, including development and delivery of savings plans and capital plans
- prioritising resources, including options analysis
- improving efficiency and effectiveness, including service redesign and effectiveness of key resources

We will undertake work in the following areas to address the risks identified which are only relevant to the PCC:

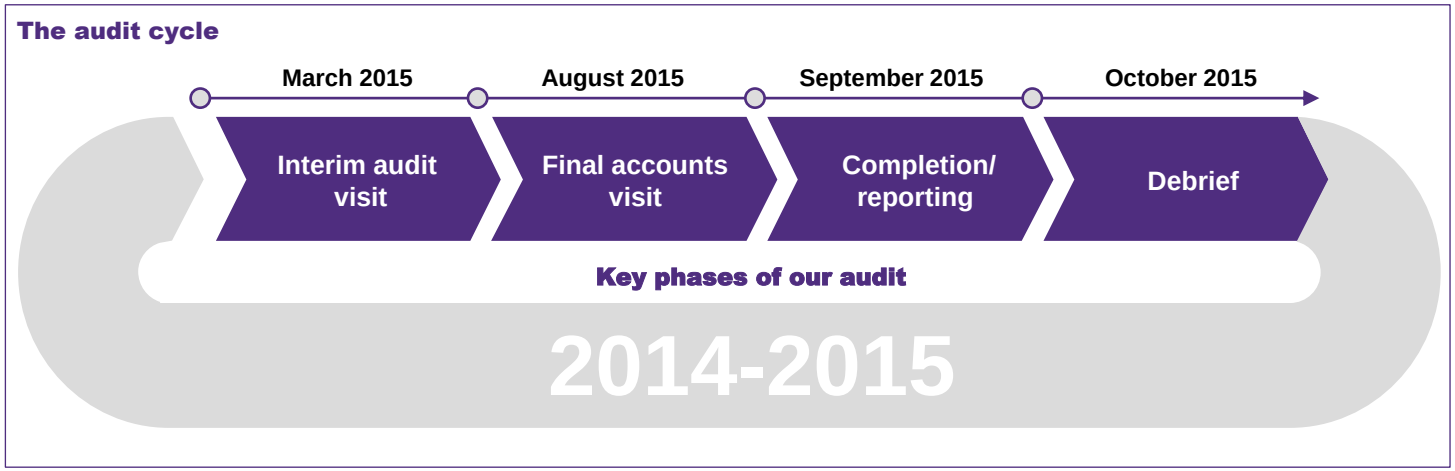
- arrangements for commissioning victim services

We will undertake work in the following areas to address the risks identified which are only relevant to the Chief Constable:

- collaboration

The results of our VfM audit work and the key messages arising will be reported in our joint Audit Findings report to the PCC and the Chief Constable and in the Annual Audit Letters.

Key dates



Date	Activity
February 2015 – March 2015	Planning
9 March 2015 – 2 April	Interim audit
30 June 2015	Presentation of audit plan to Audit Committee, PCC and Chief Constable
17 August – 4 September 2015	Year end fieldwork
14 September 2015	Audit findings clearance meeting with the PCC's and the Chief Constable's Chief Finance Officers
29 September 2015	Report audit findings to the Joint Audit Committee (including presenting audit findings to the PCC and the Chief Constable as Those Charged with Governance prior to their approval of their accounts)
30 September 2015	Sign financial statements opinion

Fees and independence

Fees

	£
Police and Crime Commissioner Audit	41,380
Chief Constable Audit	20,000
Total fees for the Group (excluding VAT)	**61,380**

Fees for other services

Service	Fees £
VAT advice (vehicle disposals)	450

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the PCC and the Chief Constable and their activities, have not changed significantly
- The PCC and the Chief Constable will make available management and accounting staff to help us locate information and to provide explanations.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to the PCC's and the Chief Constable's attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the PCC and/or the Chief Constable.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as PCC's and Chief Constable's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the PCC's and Chief Constable's key risks when reaching our conclusions under the Code.

It is the responsibility of the PCC and Chief Constable to ensure that proper arrangements are in place for the conduct of their business, and that public money is safeguarded and properly accounted for. We have considered how the PCC and Chief Constable are fulfilling these responsibilities.

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

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